# Vivriti Capital Private Limited

**July 12, 2021**

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 50.00 | CARE A; Stable (Single A; Outlook: Stable) | Assigned |
| **Total Bank Facilities** | **50.00 (Rs. Fifty Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the long-term bank facilities of Vivriti Capital Private Limited (VCPL) factors in the comfortable capitalization levels supported by regular equity capital raise from private equity investors in the initial phase of business, experience of the promoters in the financial services business and risk management framework. The rating is supported by its proprietary technology platform 'CredAvenue' which also functions as a source of origination for VCPL, as well as providing data analytics that assists in monitoring of loan portfolio. CARE expects CredAvenue to complement the lending and asset management business of the group and help the group in increasing its market presence. The rating also factors in diversified resource profile and adequate liquidity profile of VCPL.

The rating is constrained on account of limited track record of operations and moderate seasoning of the significant proportion of the loan book, moderate profitability with relatively higher operational costs as the company is in the scaling up phase, concentration risk with enterprise loan book (financial as well as non - financial sector entities) and exposure to borrowers which are largely small and mid-sized NBFCs having moderate risk profile and limited experience in lending to non-financial entities that the company plans to diversify into in the near term.

VCPL started its lending operations in April 2018, with exposures to small and mid-sized NBFCs. VCPL commenced diversification into non - financial sector enterprises in 2019, tie-ups with retail originators for co-lending in early 2020 and supply chain finance in 2021. As on March 31, 2021, the company had Asset Under Management of Rs.1,905 crore (March 31, 2020: ~Rs.1,015 crore) with 69.3% of the AUM comprising of exposure of small and mid-segment NBFCs (88.9% as on March 31, 2020). VCPL also provides asset management services through 'Vivriti Asset management Private Limited' (VAM) which has AUM of ~Rs.400 crore across 3 funds as on April 30, 2021.

While the consolidated profitability will be impacted by CredAvenue Private Limited's (CAPL) operational cost as well as developmental cost, CARE expects the standalone profitability of VCPL to improve in FY22 on account of increase in scale as well as normalization of operational expenses. Further, the impact of 2nd wave of Covid-19 on business profile of VCPL, including the collection efficiency, asset quality, growth and profitability needs to be seen going forward.

**Rating sensitivities:**

**Positive factors - Factors that could lead to positive rating action/upgrade:**

- Substantial improvement in scale of operations along-with consistent improvement in profitability while maintaining comfortable capitalization
- Improvement in seasoning of Loan portfolio with stable asset quality parameters on sustained basis.

**Negative factors - Factors that could lead to negative rating action/downgrade:**

- Deterioration in asset quality with gross NPA greater than 3%.
- Moderation in capitalization levels (Overall gearing > 4x times) on steady state basis.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Adequate capitalization of VCPL with regular capital infusion from private equity investors***

In the initial phase of operations, VCPL has been able to raise equity capital of around Rs.760 crore from private equity investors – Creation Investments LLC (Rs.410 crore since January 2019) of which Rs.100 crore was raised in September, 2020 and LGT Lightstone (Rs.350 crore in March 2020) which resulted in the company having tangible net worth of Rs.761 crore as on March 31, 2021 (March 31, 2020: Rs.655 crore) on a consolidated basis. As on March 31, 2021, on fully diluted basis, Creation Investments India III held shareholding of 57.89%, LGT Lightstone group held 23.18% and the promoters, founders and employee ESOP stock held 18.75% shareholding.

VCPL on standalone basis reported Capital Adequacy Ratio (CAR) of 40.31% as on March 31, 2021 (March 31, 2020: 64.48%) with Tier I CAR of 39.71% (P.Y.: 64.13%). The company's overall gearing was moderate at 1.82x times as on March 31, 2021, which is expected to increase over the next three years as the company has plans to significantly scale up its loan portfolio

but is expected to remain under 4x times on steady state basis. The company would raise equity capital to support the significant growth plans to maintain the leverage under the stated level.
Around 10% of the net worth of VCPL is invested into its two subsidiaries, CAPL (Rs.50 crore) and VAM (Rs.30 crore), both of which are yet to breakeven.
While the technology platform is generating fee-based income and is increasingly adding members, it is under development and would require funding over the next two years to meet the developmental and operational costs. As a result, CAPL under which the platform is housed is expected to report loss in near term and turn profitable by end of FY23. The group has plans to raise equity capital of around ~Rs.150 to Rs.300 crore in CAPL to fund its capital and operational expenditure for planned growth and does not envisage any incremental investment support from VCPL into CAPL. CARE expects CAPL to raise equity capital during FY22 to fund its losses, and it would continue to be a key rating sensitivity. In spite of the dilution of stake in CAPL, VCPL would continue to hold majority shareholding in CAPL.

***Experience of promoters and management team in financial services***
The promoter and founding team members have extensive experience in financial services which will help in increasing the scale of business aggressively. Both the promoters, Mr. Gaurav Kumar and Mr. Vineet Sukumar, have extensive experience in arranging and lending business, especially to financial services entities.
The company initially started with developing digital platform for arranging / deal making business in FY18. It started lending operation in April 2018. It started the asset management business in February 2019. The group has aggressive growth plans on account of low base with total assets under management of VCPL increased by 89% y-o-y to Rs.1,905 crore from Rs.1,015 crore as on March 31, 2020 (March 31, 2019: Rs.537 crore). The company envisages continuing aggressive growth in AUM by about 70% in FY’22. VAM is also expected to launch multiple funds during the year and increase its AUM, leveraging on the group’s expertise in financial services space.

***Strong technology footprint***
The company has developed a sophisticated digital platform CredAvenue, with capabilities like onboarding, credit evaluation, deal execution and portfolio monitoring services which is being developed as fee-based business. The digital platform provides significant benefits to the borrowers, investors and other counterparties for end-to-end platform. CredAvenue also provides platform for price discovery of debt instruments which is useful for low rated/illiquid debt instruments as well as high rated instruments. Since inception, CredAvenue has onboarded over 1,000 enterprises on their platform for funding requirements (term loan, structured finance, bonds, supply chain finance, co-lending partners). The platform is being used by 500+ investors ranging from banks, mutual funds, financial institutions, HNIs, etc. CredAvenue is expected to increase the product offerings and onboard new clients and investors to increase the scale, reach and platforms use cases and thus increase the market presence of group in overall financial services segment.
On 1$^{st}$ October 2020, VCPL set up Credavenue Private Limited as a wholly owned subsidiary and transferred the technology platform along with its employees and operational set-up. VCPL has made an initial equity investment of Rs.50 crore into CAPL and going forward, CAPL is expected to function as a separate entity building its own revenue profile and raise equity and / or debt to fund its operations till the company is profitable.

***Stringent underwriting skills required for the target segment***
The company has well defined process to evaluate the credit starting with onboarding of client digitally through CredAvenue and credit evaluation which is carried out by VCPL’s credit and risk team. It carries out detailed due diligence for all the financial services entities as well as non - financial sector enterprises clients and continues monitoring the credit once it is disbursed.
While there are sectoral and single borrower exposure norms in place along with cap on subordinated exposures which provides comfort, CARE expects VCPL to have prudential deal selection considering the riskier asset class of the borrowers.
Both VCPL and VAM use CredAvenue platform to originate credit opportunities, which will enable the companies to have access to continuous deal flows on the platform. CARE expects CredAvenue to complement the lending and asset management business of VCPL and VAM and help the group in increasing its market presence and benefit from the market intelligence and early warning signals to detect stress from the group’s technology platform CA.
Since inception, nearly ~Rs.40,000 crore of transactions has taken place on CredAvenue platform till FY21, which the company is expected to scale up significantly going forward.

***Diversified resource profile with adequate liquidity***
The company has nearly 35 lender relationships with nearly 55% of borrowings from banks and rest from other NBFCs, financial institutions, Mutual funds, etc. CARE expects the company to significantly increase its borrowings during the year by tying up new credit lines to grow the portfolio as envisaged by VCPL. As on March 31, 2021, the overall Borrowings of VCPL consists of term loans (66%), bonds (31%) and securitization (3%). The ability to secure new lender tie-ups at competitive interest rates to grow loan book as envisaged by VCPL will be key monitorable going forward.

**Key Rating Weaknesses**

***Limited track record of operations and moderate seasoning of the significant proportion of the loan book***

The group has started lending operation in April 2018 with FY19 being the first full year of operations. The company's customer base included entities in the financial services largely small and mid-sized NBFCs which have moderate risk profile. The lending to NBFCs is for a tenure of 2 to 3 years. Later the company started diversifying the book with exposures to enterprise segment (non-financial) with 2 to 4 years of average tenor, supply chain finance (3 to 4 months tenor) and Co-lending book (1 months to 3 years).

The company has limited track record of lending operations and ability to maintain robust asset quality going forward needs to be seen. The books resilience to various business cycles is yet to be seen as ~58% of cumulative disbursements of Rs.3,532 crore since April 2018, have happened during FY21 (~Rs.2,041 crore).

The company has not provided any restructuring to any exposure under window provided by RBI for Covid-19 related stress. During FY21, the company's credit cost (including write-off) stood at 1.62% as against 0.94% during FY20. As on March 31, 2021, the GNPA stood at 0.31% with PCR of 100% as against GNPA of 0.63% with PCR of 84% as on March 31, 2020. The company witnessed slippages in a couple of accounts which the company has fully provided for. The co-lending book is backed by first loss default guarantee by the originators which makes the book relatively secured for VCPL and VCPL is expected to ramp up its book. VCPL envisages to achieve ~20-30% share of exposures to each of the 4 verticals viz. lending to financial services enterprises, non - financial sector enterprises, Supply chain financing and Co-lending each in next 3-4 years.

**Moderate Profitability**

During FY21, the company reported Consolidated Profit after tax (PAT) of Rs.14.42 crore on total income of Rs.245.67 crore as against PAT of Rs.9.63 crore on total income of Rs.148.84 crore during FY20. The pre-provisioning operating profit (PPOP) stood at Rs.51.10 crore during FY21 as against Rs.22.68 crore. The provisions were higher at Rs.29.90 crore to provide for stresses account and write off exposure to one fraud account as against Rs.9.67 crore during FY20. VCPL reported subdued consolidated ROTA of 0.78% as against 0.93% during FY20. The consolidated profitability is subdued on account of high initial set up costs, operational costs for VAM and VCPL and development and marketing costs for CAPL.

On standalone level, VCPL reported PAT of Rs.30.01 crore on total income of Rs.225.12 crore as against PAT of Rs.10.29 crore on total income of Rs.148.16 crore during FY20. The transfer of CredAvenue to subsidiary CAPL during H2FY21 and improvement in scale of lending business led to improvement in standalone profitability of VCPL. CARE expects, with increase in scale of operations, normalizations of Operational costs and resultant operating leverage, VCPL's standalone profitability will improve going forward. During Q4FY21, VCPL reported standalone PAT of Rs.8.62 crore on total income of Rs.64.76 crore. The consolidated profitability will be impacted for next couple of years by the expected losses in CredAvenue business on account of high developmental costs to grow the business, which is expected to be funded by equity raise in FY22. VAM is expected to breakeven in next few quarters with doubling of AUM from current ~Rs.400 crore to ~Rs.800 crore.

***Exposure to riskier asset class posing asset quality risks and largely enterprise exposures with concentration risk***

The company provides loan to small and mid-sized enterprises (financial as well as non-financial entities) with majority book in financial services sector. The credit profile of the target segment is relatively risky in nature with significant exposures to MFI entities (22%), SME funding providers (24%), vehicle finance (13%), Consumer finance (13%). On overall level, 84% of the book comprises of enterprise term loans with top 10 exposure forming 37% of Networth as on March 31, 2021, posing concentration risk. CARE takes comfort from company's plan to limit the ticket size going forward, which along with envisaged growth in loan book, will help in moderating the concentration going forward. Managing the asset quality of this riskier segment of book will be key monitorable going forward.

**Analytical approach:** VCPL owns 100% shareholding in CredAvenue Private Limited and Vivriti Asset Management Private Limited which has operational, financial as well managerial linkages. Accordingly, CARE has considered Consolidated view of VCPL for arriving at the rating.

**Applicable Criteria**

Rating Methodology – Non Banking Finance Companies (NBFC)
Financial Ratios- Financial Sector
Criteria on assigning Outlook and Creditwatch to Credit Ratings
CARE's policy on default recognition
CARE's policy on Consolidation

**Liquidity Position: Adequate**

As per the asset liability maturity (ALM) statement as on March 31, 2021, there were no negative mismatch in any bucket. Further, on consolidated basis, VCPL held cash and equivalent of Rs.148 crore. The company is expected to carry 2 months of debt obligation including interest and operational expenses as liquidity going forward. The collection efficiency has stood at robust 99% during March 2021. The impact of current wave of Covid-19 (wave -2) on liquidity and collection efficiency of the company needs to be seen.

**About the Company**

Vivriti Capital Private Limited (VCPL) is a NBFC-ND-SI registered with RBI. It was started in June 2017 by Mr. Gaurav Kumar and Mr. Vineet Sukumar with focus to provide financial services to financial as well non-financial entities, including lending through VCPL, asset management services through Vivriti Asset Management (VAM, 100% subsidiary) and arranging capital through proprietary platform CredAvenue, which was transferred to 100% subsidiary CAPL in H2FY22.

VCPL provides term and supply chain finance to small and mid-sized financial and non-financial entities with AUM of Rs.1,905 crore provided to 155+ enterprise clients and 3 Lac+ retail clients (through co-lending agreements with other NBFCs) as on March 31, 2021.

**Vivriti Capital Private Limited (Consolidated)**

| Brief Financials (Rs. crore)$ | FY20 | FY21 |
|---|---|---|
| | *12m, A* | *12m, A* |
| Total income | 148.85 | 245.67 |
| PAT | 9.63 | 14.42 |
| Total Assets (adjusted for Intangible assets) | 1,469.73 | 2,210.85 |
| Net NPA (%) | 0.10 | Nil |
| ROTA (%) (PAT/Average Tangible Total Assets) | 0.93 | 0.78 |

*A: Audited; All ratios are as per CARE's calculation*

*$ (IND AS)*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | - | 50.00 | CARE A; Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Fund-based - LT-Term Loan | LT | 50.00 | CARE A; Stable | - | - | - | - |

**Annexure-3: Complexity Level of various Instruments rated of this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Term Loan | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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